

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2005-125-G**

IN RE:

Piedmont Natural Gas	)	
Company's Application of the	)	<b>SETTLEMENT AGREEMENT</b>
Natural Gas Rate Stabilization Act	)	
To its Rates and Charges.	)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina (“ORS”), South Carolina Energy Users Committee (“SCEUC”), and Piedmont Natural Gas Company, Inc. (“PNG”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

WHEREAS, by South Carolina Public Service Commission (“Commission”) Order Nos. 2005-491, dated September 28, 2005, and 2005-567, dated October 13, 2005, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the “Act”) and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (Supp. 2005), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2006 for the review period consisting of April 1, 2005 through March 31, 2006 (“Review Period”);

WHEREAS, the Report of the ORS Review of PNG’s Monitoring Report for the Twelve-Month Period Ending March 31, 2006, pursuant to the Act, was filed with the Commission on September 1, 2006;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. Piedmont will implement rates for the twelve-month period beginning with the first billing cycle of November 2006 calculated on the basis of an 11.2% return on equity (“ROE”).

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Schedule 1 (Net Operating Income and Rate of Return); Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Schedule 3 (Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, the additional revenue required to return PNG to its authorized return on equity of 12.6% was reduced from the \$11,249,086 requested to \$9,527,749. This results in a net savings to the rate payers of \$1,721,337.

5. The Parties further agree that, as a result of PNG’s commitment to implement rates calculated on an 11.2% ROE, as set forth in paragraph 1 above, a further reduction in PNG’s revenue requirement from \$9,527,749 to \$6,533,885 will result. This additional reduction produces a net savings to the rate payers of \$2,993,864.

6. The Parties agree that, based upon the additional revenue (\$11,249,086) requested by PNG and the additional revenue (\$6,533,885) agreed upon pursuant to this Settlement Agreement, the total net savings to rate payers from this Settlement Agreement is \$4,715,201.

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

8. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty.

9. This agreement shall be interpreted according to South Carolina law.

10. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[SIGNATURE PAGES FOLLOW]

WE AGREE:

**Representing and binding the Office of Regulatory Staff**

/s/ Jeffrey M. Nelson  
Jeffrey M. Nelson, Esquire  
C. Lessie Hammonds, Esquire  
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WE AGREE:

**Representing and binding Piedmont Natural Gas Company, Inc.**

/s/ James H. Jeffries, IV  
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**Representing and binding South Carolina Energy Users Committee**

*/s/ Scott Elliott*

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